

The International Dimension of Combating the Financing of Terrorism

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Chairman Oxley, Mr. LaFalce and distinguished members of the Committee: thank you for the opportunity to testify on the international dimensions of the fight against terrorist finance.

The United States is engaged in a long-term war against terrorists and terrorist organizations with global reach. I thank you for giving us the USA Patriot Act that provides additional tools for waging this war. This fight requires actions on several fronts. A critical front is the effort to disrupt the financial networks that sustain these organizations and finance their operations.

Since our enemy has global reach and is supported by a global network, we need a global strategy. The State Department has been a close partner with Treasury, our law enforcement agencies, including the Department of Justice, and our intelligence agencies as the Administration formulated and implemented a comprehensive strategy to disrupt, dismantle and shut down the financial networks that support terrorism.

The intelligence agencies, with support from other agencies including the State Department, have led the Administration's efforts to understand the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. The Treasury Department, working with other agencies, leads the process by which we examine the actions, including but by no means limited to asset freezes and seizures, by which we can disrupt these networks. The State Department has led the interagency process through which we develop the strategies and activities to win support and cooperation from other countries. All these activities operate under the direction of a policy-level committee established under the framework of the National Security Council and chaired by the Department of the Treasury.

The International Dimension of our Strategy

My testimony will focus on the international dimension of our strategy, which includes the following main elements:

1. Establishing norms and obligations: The Administration has established a clear set of international norms, expectations and obligations, primarily through United Nations Security Council Resolutions and international conventions.

2. Raising the profile of the issue: The Administration has put fighting terrorism, including the financing of terrorism, at the top of the agenda in our relationships with other countries, international organizations and institutions like the G7/G8.
3. Blocking assets: The Administration has worked with other countries to block the assets of terrorists and terrorist organizations.
4. Financial Action Task Force (FATF), the OAS, APEC and the OSCE: Treasury and State have broadened the scope of FATF, the world's leading organization to combat money laundering, to include in its mandate action against the financing of terrorism. The Administration is working with international organizations to insert the issue of terrorist finance into their work plans in ways that complement the FATF's leadership in setting standards on this issue.
5. Law enforcement: We are working on many fronts to strengthen law enforcement cooperation on issues related to terrorist finance.
6. Technical assistance: We are extending training and technical assistance to other countries that have the will, but not always the capacity, to act against terrorist finance.

As I will detail, we have made considerable progress during the past year in winning practical support from other countries and international organizations. We have frozen significant amounts of terrorist funds. Today, it is much harder today for terrorists to raise and move money. Many who formerly provided financial support for terrorism seem to have backed away. Some facilitators have been arrested or captured. The international banking system no longer is a system that terrorists can safely use.

As I also will discuss, there is much more to be done. As formal financial systems are purged of terrorist finance, terrorists naturally are inclined to resort to other, more costly, but still serviceable mechanisms for moving resources. We are working with other countries to ensure that funds donated for worthy charitable purposes are not diverted to evil terrorist practices. In some countries we have not yet succeeded in discrediting prominent personalities who espouse popular causes while secretly fostering terrorist activity.

President Bush repeatedly has reminded us that the war against terrorism will be long and difficult and will require patience and persistence. The financial dimension of this war is no different. We have had some well-publicized successes, as well as other successes that, for the moment, are best not discussed. We have degraded, but by no means destroyed, the ability of terrorist groups to raise and move financial resources. We must stick with it.

Major Activities and Achievements of the Past Year

The United Nations has played a key role in our global strategy. Ambassador Negroponte moved quickly in the UN Security Council to establish a broad framework of commitments among countries. The Security Council has adopted two resolutions, both

of which create obligations that are binding upon Member States in accordance with Chapter VII of the UN Charter. UN Security Council Resolution (UNSCR) 1390 is targeted at Usama bin Laden, members of al Qaida and the Taliban. UNSCR 1373 is aimed at worldwide terrorism in general.

Resolutions are good but implementation is vital. That is why we are working closely with the UN Counter-terrorism committee, which was established by UNSCR 1373, to review the measures taken under the resolution and to assist in the coordination of technical assistance provided to states to help them meet their commitments under the Resolution. We also are working closely with the UN Sanctions Committee established by UNSCR 1267. (UNSCR 1267 was adopted on October 15, 1999, and targeted the Taliban by freezing its funds and other financial resources and those of any entity owned or controlled by it.) The 1267 Sanctions Committee is currently working to implement the sanctions imposed by UNSCRs 1267 and 1390 on the Taliban, Usama bin Laden, the Al Qaida organization, and those linked or associated with them. In this Committee, we consolidate the names of all individuals and entities whose assets UN member states are required to freeze pursuant to resolutions 1267 and 1390.

The 1267 sanctions committee is a very useful mechanism for internationalizing financial or asset freezes against the Taliban, Usama bin Laden, Al Qaida and those linked or associated with them, because all UN member states are obliged to enforce the UNSCR freezes. The names of targeted individuals and entities are submitted to the 1267 sanctions committee for inclusion in the committee's consolidated list. Once the names are on that list, all member states are required to take action against them.

We also have urged other countries to become signatories as soon as possible to the twelve UN conventions and protocols related to terrorism, especially the International Convention for the Suppression of the Financing of Terrorism. Before September 11, 2001, only two countries had become parties to all twelve instruments. Today sixteen countries, including the United States, are a party to each of the twelve conventions and protocols. Forty-four (44) countries have become a party to the Convention on the Suppression of the Financing of Terrorism.

During the past year President Bush, Secretary Powell and Secretary O'Neill have put the fight against terrorism, including the financial dimension of that fight, at the top of each of our international relationships. For example:

- The European Union has worked with us to ensure that nearly every terrorist individual and entity designated by the United States has also been designated by the European Union. Recently the EU took action against the al-Aqsa Martyrs Brigade, a group that has taken responsibility for a number of cowardly suicide bombings in Israel. The Dutch Government recently took rapid and effective action against the financial assets of the "New Peoples Army" and its leader Jose Sison, the group and leader known to be responsible for the killing of American citizens in the Philippines. On August 29, the Government of Italy joined the United States in submitting to the

United Nations the names of twenty-five individuals and companies linked to al-Qaida, so that their assets would be frozen worldwide.

- The G7/G8 has served as an informal task force of like-minded countries on combating terrorist finance. In June, G8 Foreign Ministers endorsed a revised set of recommendations on counter terrorism. (Section 5 addressed the financing of terrorism.) The G8's endorsement included a commitment to full implementation of UNSCR 1373 and the FATF special recommendations on terrorist financing. The G8 also committed to practical measures, such as removing legal obstacles to effective common action, moving beyond freezing to forfeiture of terrorist assets, facilitating the traceability of terrorist funds and ensuring that mutual legal assistance is not refused on the ground of bank secrecy. In April the G7 countries jointly submitted a list of ten names to the UN so that the assets of those individuals would be frozen worldwide.
- Recently we joined with the governments of Kyrgyzstan, Afghanistan and China in submitting the Eastern Turkestan Islamic Movement to the United Nations for inclusion on its list of terrorist individuals and organizations associated with al-Qaida, an important step toward greater cooperation on terrorist financing in Central Asia.

I would like to underscore the efforts we have made with friendly countries in the Near East. Drawing on the counsel of our Ambassadors and embassies in the field, we have worked closely to get effective actions to close down funding for terrorists. For example:

- The United Arab Emirates, Bahrain, Egypt and Qatar have passed anti-money laundering legislation.
- All member countries of the Gulf Cooperation Council have increased oversight of their banking systems.
- Kuwait and Saudi Arabia have worked with us to devise ways to prevent the misuse and abuse of charities for terrorist purposes. Both countries are setting up government entities to oversee charities.
- Earlier this month Saudi Arabia joined the United States in submitting to the United Nations the name of a Saudi supporter of al-Qaida, so that his assets would be frozen worldwide.

We also are working through a number of multilateral institutions to promote concerted action on terrorist finance. For example:

- FATF, a group of 29 countries devoted to combating money laundering, has adopted eight special recommendations on combating terrorist finance. FATF is monitoring compliance with its recommendations, has invited members as well as non-members to respond to a questionnaire on these recommendations and, in coordination with the UN Counter-terrorism Committee, is assessing these countries' needs for technical assistance.
- In the Organization of American States, we have secured adoption of the Inter-American Convention against Terrorism. This Convention requires, among other

things, that each signatory State establish a legal and regulatory regime to combat the financing of terrorism. Parties also agreed to improve controls at banks and other financial institutions and to establish financial intelligence units.

- In the Asia-Pacific region, we are working with multilateral entities such as the Asia Pacific Economic Cooperation (APEC) group, ASEAN, the ASEAN Regional Forum and the Asia Pacific Group on Money Laundering to establish regulatory regimes consistent with its member countries' obligations under UNSC Resolution 1373. The goals are to set up Financial Intelligence Units, advance implementation of FATF's eight recommendations to combat terrorist finance, set new norms to prevent abuse of alternative remittance systems, and train officials and bankers to effectively implement these initiatives. APEC Finance Ministers meeting in early September adopted an ambitious anti-terrorist finance action plan. It includes tackling head-on the difficult issue of regulating hawalas and other alternative remittance systems. The President will raise cooperation on halting terrorist financing when he meets with 20 Asia Pacific Leaders in Mexico in late October.
- The Organization for Security and Cooperation in Europe (OSCE) has incorporated terrorism finance into its work plan and agenda as well. OSCE specifically focused on this issue at its February Global Forum in Hong Kong, its May meeting in Prague and its June meeting in Lisbon. The OSCE agreed that it would urge its members to implement the eight FATF special recommendations on terrorist financing, and reports good success in this effort. Progress by member and non-member states will be the focus of the October FATF plenary in Paris in October.

The Department of State has taken a major role in implementing the USA PATRIOT Act, which includes a wide variety of provisions designed to combat terrorism and money laundering and to enhance border security. For example,

- The Act authorizes the Secretary of State, in consultation with the Attorney General, to designate an organization as a terrorist organization for immigration purposes, if it meets the Act's criteria. Individuals associated with any organization so designated are inadmissible to the U.S.
- Such designated organizations are kept on the so-called "terrorist exclusion list" or TEL list. The TEL list is a critical tool for U.S. law enforcement agencies as they seek to bolster homeland security. We have already identified 39 organizations under this authority and will continue to expand the list as we identify and confirm additional entities that give support to terrorists.
- Since enactment of the USA PATRIOT Act, which for the first time provided the State Department with access to data from the National Crime Information Center (NCIC), the Department has incorporated approximately 8 million NCIC records into the visa lookout database, a number which continues to grow as additional information is received.
- The Secretary of State has also established pursuant to his authorities under the USA Patriot Act a money-laundering watch list, which identifies individuals worldwide

who are known or suspected of money laundering. This list is readily accessible and is checked by a consular or other Federal official before the issuance of a visa or admission to the United States.

With respect to the subject of today's hearing – the financing of terrorism – we also are cooperating with other agencies of the U.S. government and with many states on law enforcement issues related to terrorist finance. The Secretary of the Treasury and the Attorney General each has the authority for implementing many provisions in Title III of the USA Patriot Act that are designed to combat money laundering and the financing of terrorism. As the Act requires, the Department of State has consulted closely with the Secretary of the Treasury and the Attorney General, as appropriate, in implementing the Act, and works closely with those agencies to implement the Act's provisions. For example:

- The State Department consulted closely with the Justice Department in its first use of the correspondent bank account provisions of the USA PATRIOT Act to obtain assets in Belize of almost \$1.7 million in proceeds of crimes related to money laundering and mail and wire fraud. Since then, the Department has consulted with the Justice Department in other uses of the correspondent bank account provisions.

Some countries that want to help in our efforts to combat terrorist financing lack the capacity to do so. Therefore, we have worked hard to build-up their capacity to do so through a variety of efforts.

- Through our technical assistance and capacity-building programs, we have identified and continue to find important vulnerabilities to terrorist financing, such as the lack of capacity in other countries to prohibit financial transactions with terrorist entities. We are working with our partners to redress these vulnerabilities. We are also integrating the lessons learned into training programs for relevant US agencies. I won't go into details since, for operational and investigative reasons, most of the details about vulnerabilities remain sensitive.
- These training and technical assistance programs are critical to the success of our efforts to combat terrorism financing worldwide, since many countries have the will to assist but lack the means or experience to do so.
- Our success in this arena cannot be measured solely through the number of assets or accounts frozen, but also must include the results of a range of efforts we have made and are making in combating terrorist financing. These include our intelligence efforts, our diplomacy both bilateral and multilateral, and our efforts to give technical and other help and support to other countries.

Moving to the Next Level

In the year ahead we will need to continue to implement the international strategies outlined above. We will also need to intensify our efforts in certain areas. In this regard,

I would like to highlight three areas: informal financial networks; charities and technical assistance.

As we close down access for terrorists to formal financial systems, we will need to strengthen our ability to monitor, disrupt and shut down less formal networks. We understand the threat posed by informal value transfer systems. Often these transactions are traditional and are intertwined with legitimate commerce, like wage remittances, through systems such as hawala. But such techniques of transferring value lend themselves to use in smuggling, corruption and narcotics trafficking, money laundering and, now, terrorist financing.

While there is no easy answer to the threat posed by informal value transfer systems, we are taking steps. Our embassies and consulates are reporting with details on these systems and discussing with foreign governments ways to address the problem. In cooperation with the U.S. Customs Service we are considering training and technical assistance programs that might be appropriate.

As noted earlier, the United States has taken action against charities that have allowed funds to be diverted to terrorist purposes. A number of governments are taking steps to exercise greater surveillance of charities. We will continue to block the assets and work with our allies to block the assets of charities that divert funds to terrorist purposes, especially when it is clear that there is witting complicity on the part of the charities' leaders.

At the same time, it is important that our work on charities not leave the impression that we are indifferent to the plight of poor people that legitimate Islamic charities assist. Americans citizens are the most generous supporters of charities in the world and we therefore respect organizations that raise funds here in the United States and in other countries for charitable purposes. What is important is to ensure that there is effective oversight on how such funds are used. Further work on this subject is a top priority.

As we move forward with refined strategies, it is likely that the role of technical assistance and training will grow. Coordination is always a challenge, even within a single government, and it becomes even more of a challenge when several countries or organizations are involved. In the past year the United States, rightly in my view, put the greatest priority on moving quickly. In the next year I believe we will need to do more to develop improved training programs, establish clear benchmarks, exchange information on best practices and ensure that countries committed to the fight against the financing of terrorism get the help they need.

Mr. Chairman, you can see from this short summary that cutting off terrorist financing is an immensely complicated process. We welcome the strong support of the Congress as we confront this challenge.